

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-02 DODE-00 PA-03 USIA-12 PRS-01 ABF-01 FS-01

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TO SECSTATE WASHDC 4791

INFO USMISSION OECD PARIS

C O N F I D E N T I A L BONN 6323

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: GDS

TAGS: EFIN, FW

SUBJECT: CONCERN OVER PRICE TRENDS IN THE FRG INCREASES

REF: BONN 6062

1. CONCERN OVER PRICE TRENDS IN THE FRG HAS INCREASED FURTHER. THE COST OF LIVING INDEX IN APRIL IS NOW ESTIMATED TO HAVE EXCEEDED THE YEAR EARLIER LEVEL BY 7.5 PERCENT FOR THE FRG AS A WHOLE (AND BY 7.9 PERCENT IN BAVARIA AND 7.7 PERCENT IN NORTH RHINE WESTPHALIA).

2. THE ECONOMICS MINISTRY STAFF HAS BEEN REVIEWING POSSIBLE GOVERNMENT ACTION AND WE ARE TOLD ITS INTERNAL PROPOSALS INCLUDE " DRASTIC" PROPOSALS BECAUSE THE MINISTRY' S PLANNERS AS WELL AS PART OF THE BUNDESBANK STAFF ARE INCREASINGLY CONVINCED THAT ONLY A " SHOCK EFFECT" CAN HALT THE ACCELERATING PRICE SPIRAL. IN PARTICULAR THEY ARE WORRIED THAT UNLESS BY THIS FALL THE PRICE CLIMATE SHOWS

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DEFINITELY PROSPECTS OF COOLING DOWN MAJOR WAGE SETTLEMENTS
WILL BECOME VERY MUCH MORE INFLATIONARY AT THAT TIME.

3. FINANCE MINISTER SCHMIDT IN THE LAST FEW DAYS HAS AGAIN
TAKEN A VERY STRONG PUBLIC STAND AGAINST AN ACROSS THE
BOARD INCOME TAX SURCHARGE, HOWEVER, AND THE CHANCES FOR
GOVERNMENT EXPENDITURE CUTS SEEM TO BE PRETTY WELL
RESTRICTED TO THE POSTPONEMENT OF SOME INVESTMENT PROJECTS.
MINISTER FRIDERICH'S AS WELL AS THE SPD CONTINUE TO BE
THOROUGHLY OPPOSED TO ANY WAGE AND PRICE STOP. IT THERE-
FORE SEEMS AT THIS TIME UNLIKELY THAT THE GOVERNMENT IN THE
END WILL BE ABLE TO AGREE TO PROPOSE MANY REALLY MEANINGFUL
ANTI- INFLATIONARY FISCAL MEASURES BEYOND A FURTHER
SUSPENSION OF ACCELERATED DEPRECIATION PROVISIONS AND AT
LEAST SOME OF THE INCENTIVES FOR PRIVATE HOUSING
CONSTRUCTION. A MORE GENERAL INVESTMENT TAX, HOWEVER, IS
ALSO BEING DISCUSSED.

4. THE MAIN BURDEN OF ANTI- INFLATIONARY POLICY THUS WILL
PROBABLY FALL ON THE BUNDESBANK. THERE IS, HOWEVER, IN-
CREASING PRESS SPECULATION THAT DESPITE ITS PRESENT DENIAL
THE GOVERNMENT MIGHT WELL BE FORCED BY THIS FALL INTO A
LOAN AND PRICE STOP-- ALL ELSE HAVING FAILED. A FEW
COMMENTARIES SEE THIS POSSIBILITY AS ALREADY ACTING AS
A FURTHER INFLATIONARY FACTOR AS PRICE INCREASES ARE
HURRIED ALONG TO GET UNDER THE WIRE BEFORE SUCH
A FREEZE IS IMPOSED.
CASH

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